

# Chapter 2

# Audit Report & Consolidated Financial Statements as of December 31, 2005

Audit Report

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**A free translation of the report on the consolidated financial statements originally issued in Catalan. In the event of a discrepancy, the Catalan language version prevails**

## AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To The Shareholders of Andorra Banc Agricol Reig, SA

We have audited the accompanying consolidated balance sheet of Andorra Banc Agricol Reig, SA and its subsidiaries (hereon Grup Andorra Banc Agricol Reig), as of December 31, 2005, and the related consolidated statement of income, and the consolidated statement of source and application of funds for the year then ended. These consolidated financial statements are the responsibility of the directors of Andorra Banc Agricol Reig, SA. Our responsibility is to express an opinion on these consolidated financial statements, based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors of Andorra Banc Agricol Reig, SA, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Grup Andorra Banc Agricol Reig as of December 31, 2005, and of the results of its operations and the source and application of funds for the year then ended, in conformity with generally accepted accounting principles as set down by the Accounting plan of the financial system of Andorra, applied on a basis consistent with that of the preceding year.

PricewaterhouseCoopers SA

 

Philippe Bochud

Jean-Christophe Pernellet

Geneva, 21 February 2006

Consolidated Balance Sheets  
as of December 31, 2005 and 2004

(In thousand euros)

<b>ASSETS</b>	<b>2005</b>	<b>2004</b>
<b>Cash and deposits at Central Banks of the OECD</b>	<b>8,699</b>	<b>7,793</b>
<b>Andorra National Institute of Finance (INAF) (Note 18)</b>	<b>18,836</b>	<b>32,515</b>
<b>Banks and financial institutions (Notes 4 and 5)</b>	<b>164,738</b>	<b>200,498</b>
Banks and financial institutions	164,672	200,808
Other financial institutions	147	26
Allowance for loan losses	(81)	(336)
<b>Credit portfolio (Notes 4 and 6)</b>	<b>1,149,730</b>	<b>886,679</b>
Loans and advances to customers	1,065,966	853,079
Customer overdrafts	62,041	19,369
Customers' bills	29,030	19,848
Allowance for loan losses	(7,307)	(5,617)
<b>Investment portfolio (Notes 4 and 7)</b>	<b>636,047</b>	<b>607,810</b>
Bonds and other fixed income securities	574,149	527,424
Allowance for loan losses	(1,424)	(1,723)
Securities fluctuation reserve	(1,223)	(16)
Equity investments in Group companies	3,098	2,567
Securities fluctuation reserve	(50)	(50)
Other equity investments	4,974	4,974
Securities fluctuation reserve	-	-
Shares and other equity securities	1,333	2,092
Securities fluctuation reserve	-	-
Investment funds	55,193	72,905
Securities fluctuation reserve	(3)	(363)
<b>Intangible fixed assets &amp; capitalized expenses (Note 8)</b>	<b>8,138</b>	<b>8,893</b>
Intangible fixed assets and capitalized expenses	22,406	20,982
Amortization	(14,268)	(12,089)
<b>Tangible fixed assets (Note 8)</b>	<b>48,399</b>	<b>48,568</b>
Tangible fixed assets	98,938	94,283
Depreciation	(50,422)	(45,598)
Provision for depreciation of fixed assets	(117)	(117)
<b>Accruals</b>	<b>24,703</b>	<b>21,367</b>
Interest accrued not collected	24,268	20,879
Prepayments	435	488
<b>Other assets</b>	<b>20,773</b>	<b>21,470</b>
Current operations	10,188	16,020
Inventories	187	370
Acquired options	364	115
Others	10,034	4,965
<b>TOTAL ASSETS</b>	<b>2,080,063</b>	<b>1,835,593</b>

The accompanying Notes 1 to 18 form an integral part of these consolidated financial statements.

Consolidated Balance Sheets  
as of December 31, 2005 and 2004

(In thousand euros)

<b>LIABILITIES</b>	<b>2005</b>	<b>2004</b>
<b>Andorra National Institute of Finance (INAF) (Note 4)</b>	<b>19,606</b>	<b>49,950</b>
<b>Creditors (Note 4)</b>	<b>1,639,522</b>	<b>1,390,608</b>
Banks and financial institutions	353,588	282,920
Other financial institutions	-	-
Customer deposits	1,285,934	1,107,688
<b>Provision for liabilities and charges (Note 9)</b>	<b>4,882</b>	<b>4,701</b>
Provisions for pensions and similar obligations	4,882	4,701
Other provisions	-	-
<b>General reserve (Note 11)</b>	<b>800</b>	<b>800</b>
<b>Accruals</b>	<b>16,379</b>	<b>9,750</b>
Interest accrued not paid	9,917	9,619
Advance collections	6,462	131
<b>Other liabilities</b>	<b>19,566</b>	<b>12,933</b>
Current operations	4,283	2,485
Issued Options	131	-
Suppliers and other creditors	15,152	10,448
<b>Share capital (Note 11)</b>	<b>68,061</b>	<b>68,061</b>
Share capital	68,061	68,061
<b>Reserves (Note 11)</b>	<b>266,278</b>	<b>259,796</b>
Legal reserve	6,806	6,806
Reserves in guarantee of deposits	17,856	17,856
Statutory reserves	22,744	22,744
Voluntary reserves	217,512	209,873
Consolidated reserves	1,360	2,517
<b>Net income (Notes 10 and 11)</b>	<b>44,664</b>	<b>38,716</b>
Profit for the year	74,795	66,745
Dividends	(30,131)	(28,029)
First consolidation reserve	-	-
<b>Minority interest</b>	<b>305</b>	<b>278</b>
<b>TOTAL LIABILITIES</b>	<b>2,080,063</b>	<b>1,835,593</b>

The accompanying Notes 1 to 18 form an integral part of these consolidated financial statements.

## Consolidated Memorandum Accounts

as of December 31, 2005 and 2004

(In thousand euros)

<b>MEMORANDUM ACCOUNTS</b>	<b>2005</b>	<b>2004</b>
<b>Contingent liabilities</b>	<b>85,145</b>	<b>67,579</b>
Sureties and other guarantees	82,133	63,168
Documentary letters of credit issued or received and confirmed to customers	1,899	4,102
Acceptance of trade bills and the like	1,113	309
<b>Commitments and contingent risks</b>	<b>316,858</b>	<b>288,590</b>
Commitments and operational risks	310,431	282,609
Commitments and actuarial risks	6,427	5,981
<b>Futures operations (Note 13)</b>	<b>2,344,944</b>	<b>1,646,898</b>
Forward currency operations	1,561,453	1,149,753
Forward operations	783,491	497,145
<b>Deposits of securities and other securities under custody (Note 16)</b>	<b>5,372,570</b>	<b>4,780,295</b>
Deposits of securities under custody of third parties	4,780,309	4,221,167
Deposits of securities under own custody	592,261	559,128
<b>Other memorandum accounts under administrative control</b>	<b>1,017,285</b>	<b>775,643</b>
Guarantees and commitments received	989,185	751,142
Other memorandum accounts (Note 17)	28,100	24,501
<b>TOTAL MEMORANDUM ACCOUNTS</b>	<b>9,136,802</b>	<b>7,559,005</b>

The accompanying Notes 1 to 18 form an integral part of these consolidated financial statements.

ANDORRA BANC AGRÍCOL REIG, SA Y SOCIEDADES DEPENDIENTES  
Consolidated Statements of Income for the Years Ended  
December 31, 2005 and 2004  
(In thousand euros)

<b>PROFIT AND LOSS ACCOUNTS</b>	<b>2005</b>	<b>2004</b>
<b>Interest and related income</b>	<b>55,408</b>	<b>47,192</b>
INAF and financial institutions	9,309	7,380
Loans	33,834	26,301
Bonds and other fixed income securities	12,265	13,511
<b>Interest and related charges</b>	<b>(27,438)</b>	<b>(19,235)</b>
INAF and financial institutions	(7,439)	(2,914)
Customer deposits	(19,845)	(16,165)
Others	(154)	(156)
<b>Income from equity securities</b>	<b>480</b>	<b>716</b>
Equity investments in group companies	186	133
Other investments	283	265
Shares and other equity investments	11	4
Net income from companies consolidated by equity accounting	-	314
<b>NET INTEREST INCOME</b>	<b>28,450</b>	<b>28,673</b>
<b>Net commissions for services</b>	<b>85,455</b>	<b>72,622</b>
Commissions accrued for services rendered	90,166	76,587
Commissions accrued for services received	(4,711)	(3,965)
<b>Results of financial operations</b>	<b>16,207</b>	<b>15,429</b>
Net allocation of the securities fluctuation reserve	(847)	1,038
Exchange gains	5,803	4,584
Results of securities trading	10,471	9,958
Results of futures operations	(48)	(151)
Profit/(loss) from companies consolidated by equity accounting	828	-
<b>Other ordinary results</b>	<b>991</b>	<b>1,012</b>
<b>GROSS OPERATING INCOME</b>	<b>131,103</b>	<b>117,736</b>
<b>Personal expenses</b>	<b>(22,548)</b>	<b>(20,959)</b>
Staff, Board of Directors and indemnities	(17,743)	(16,749)
Social Security	(2,160)	(2,026)
Other staff costs	(2,645)	(2,184)
<b>General expenses</b>	<b>(26,769)</b>	<b>(22,354)</b>
Materials	(285)	(328)
External services	(13,366)	(12,682)
Local taxes (Note 18)	(11,527)	(7,735)
Other general expenses	(1,591)	(1,609)
<b>Amortization of assets net of recoveries</b>	<b>(7,411)</b>	<b>(7,510)</b>
Allocation to the provision for the depreciation and amortization of fixed assets	(7,411)	(7,510)

The accompanying Notes 1 to 18 form an integral part of these consolidated financial statements.

ANDORRA BANC AGRÍCOL REIG, SA Y SOCIEDADES DEPENDIENTES  
 Consolidated Statements of Income for the Years Ended  
 December 31, 2005 and 2004  
 (In thousand euros)

<b>Provisions for depreciation of fixed assets net of recoveries</b>	-	-
Allocation to the provision for the depreciation and amortization of fixed assets	-	-
Recoveries from the provision for the depreciation of fixed assets	-	-
<b>NET OPERATING INCOME</b>	<b>74,375</b>	<b>66,913</b>
<b>Allowance for loan losses net of recoveries</b>	<b>(1,199)</b>	<b>164</b>
Allocation to the allowance for loan losses	(1,814)	(1,088)
Recoveries from the allowance for loan losses	615	1,252
<b>Provisions for liabilities and charges net of recoveries</b>	-	-
Recoveries from the allowance for liabilities and charges	-	-
Allocation to the general reserve	-	-
Allocation to the general reserve	-	-
<b>ORDINARY PROFIT</b>	<b>73,176</b>	<b>67,077</b>
<b>Extraordinary results</b>	<b>1,751</b>	<b>(240)</b>
<b>Consolidated Profit for the Year</b>	<b>74,927</b>	<b>66,837</b>
<b>Net income attributed to minority interests</b>	<b>(132)</b>	<b>(92)</b>
<b>Net income attributed to the Group</b>	<b>74,795</b>	<b>66,745</b>

The accompanying Notes 1 to 18  
 form an integral part of these  
 consolidated financial statements.

ANDORRA BANC AGRÍCOL REIG, SA Y SOCIEDADES DEPENDIENTES  
 Consolidated Statement of Sources and Application  
 of Funds for the Years Ended December 31, 2005 and 2004  
 (In thousand euros)

SOURCE OF FUNDS	2005	2004
<b>From operations</b>	<b>84,271</b>	<b>74,308</b>
Profit for the year	74,795	66,745
Net allocation to the allowance for loan losses	1,199	(164)
Net allocation to the asset depreciation reserve	-	199
Net allocation to the securities fluctuation reserve	847	(1,038)
Allocations to other reserves (pensions funds ...)	794	556
Depreciation and amortization	7,411	7,510
Loss on the sale of fixed assets	2	286
Loss on the sale of own shares and equity (*)	-	13
Profit on the sale of fixed assets	(867)	(348)
Others (+/-)	90	549
<b>Positive change of liabilities minus assets</b>	<b>117,427</b>	<b>197,202</b>
INAF and financial institutions (Liabilities - Assets)	-	-
Banks and financial institutions (Liabilities - Assets)	106,804	197,202
Other financial institutions (Liabilities - Assets)	-	-
Other concepts	10,623	-
<b>Net increase of liabilities</b>	<b>178,246</b>	<b>31,590</b>
Creditors: customers	178,246	31,590
<b>Net decrease of assets</b>	<b>-</b>	<b>-</b>
Investment portfolio minus equity investments	-	-
<b>Sales of permanent investments</b>	<b>1,274</b>	<b>564</b>
Sale of equity investments (*)	-	13
Sale of fixed assets	1,274	551
<b>Sources generated by financing activity</b>	<b>-</b>	<b>-</b>
External capital contributions	-	-
Others	-	-
<b>Total source of funds</b>	<b>381,218</b>	<b>303,664</b>

(\*) Equity investments include the investments in Group companies and other equity investments.

The accompanying Notes 1 to 18 form an integral part of these consolidated financial statements.

ANDORRA BANC AGRÍCOL REIG, SA Y SOCIEDADES DEPENDIENTES  
 Consolidated Statement of Sources and Application  
 of Funds for the Years Ended December 31, 2005 and 2004  
 (In thousand euros)

APPLICATION OF FUNDS	2005	2004
<b>Funds applied to operations</b>	<b>(766)</b>	<b>(1,633)</b>
Application of other funds (pension funds, ...)	(766)	(1,633)
Others (+/-)	-	-
<b>Positive change of assets minus liabilities</b>	<b>(16,786)</b>	<b>(25,644)</b>
INAF and financial institutions (Assets - Liabilities)	(16,665)	(19,254)
Other financial institutions (Assets - Liabilities)	(121)	(18)
Others (Assets - Liabilities)	-	(6,372)
<b>Net decrease of liabilities</b>	<b>-</b>	<b>-</b>
Creditors: customers	-	-
<b>Net increase of assets</b>	<b>(294,432)</b>	<b>(212,394)</b>
Cash and OECD Central Banks	(906)	(689)
Loans: Customers	(264,741)	(197,989)
Investment portfolio less equity investment	(28,785)	(13,716)
<b>Permanent investment purchases</b>	<b>(6,896)</b>	<b>(6,356)</b>
Purchases of equity investments (*)	-	-
Purchases of fixed assets	(6,896)	(6,356)
<b>Funds applied</b>	<b>(62,338)</b>	<b>(57,637)</b>
Dividends	(30,131)	(28,029)
Supplementary dividends from the previous year	(32,234)	(29,606)
Others	27	(2)
<b>Total application of funds</b>	<b>(381,218)</b>	<b>(303,664)</b>

(\*) Equity investments include the investments in Group companies and other equity investments.

The accompanying Notes 1 to 18 form an integral part of these consolidated financial statements.

## Activity

# 1

- > Andorra Banc Agrícol Reig SA is a Limited Liabilities Company incorporated in 1930 under the law of Andorra and has its registered office in Escaldes - Engordany (Principat d'Andorra).

On 10 May 2002, the Extraordinary Meeting of Shareholders adopted a resolution to change its registered name from Banc Agrícol i Comercial d'Andorra, SA to Andorra Banc Agrícol Reig, SA (hereon, Andbanc or the Bank), together with the respective modification of article 1 of its Articles of Association. The corporate purpose of the Bank is to undertake banking activity as defined by the regulations of the Andorran banking system. It can undertake any activity related to its corporate purpose.

As a part of the Andorran financial system the Bank is subject to the supervision of the Andorra National Institute of Finance (hereon INAF - the Catalan acronym), which is the authority of the Andorran financial system, which performs its functions with independence of the General Administration. The Bank is also subject to compliance with local Andorran legislation (see note 18).

## Basis of presentation and consolidation principles

# 2

- > **a) Basis of presentation**

The accompanying consolidated financial statements for 2005 and 2004 are in line with the format set down by the Decree pursuant to the Accounting Plan to be implemented by all the operators in the financial system by January 19, 2000, as published in the Official Gazette of the Principat d'Andorra Number 5 year 12, of 26 January 2000, and have been prepared on the basis of the accounting records of Andorra Banc Agrícol Reig, SA and its subsidiary companies at December 31, 2005 and 2004, in accordance with Andorran accounting principles set down by the Finance system accounting plan.

The Group financial statements are pending approval by the General Meeting of Shareholders. However, Management considers that they will be approved without any significant changes.

The generally accepted accounting principles described in Note 3 below have been used in the preparation of these consolidated financial statements. No obligatory accounting principle having a significant effect on these consolidated financial statements has been excluded during their preparation.

The figures in the documents that comprise these financial statements are stated in Thousand Euros.

- b) Basis of consolidation of the financial statements**

The financial statements for 2005 under consolidation correspond to the financial statements of Andorra Banc Agrícol Reig, SA and Subsidiary companies, which have been prepared by Bank Management, and are pending approval by the General Meeting of Shareholders.

On the other hand, the Financial Statements for 2004 have been prepared by the Management of the Bank and approved by the General Meetings of Shareholders on February 24, 2005.

The main subsidiaries of Andorra Banc Agrícol Reig, SA as of December 31, 2005 are as follows:

Company	Registered Office	Auditor	Activity	% Direct Shareholding	% Indirect Shareholding	Shareholding equity	Results
Caronte 2002, SA	Andorra	(1)	Services	100%	-	36	1
Món Gestió, SA	Andorra	Deloitte & Touche	Investment management company	100%	-	759	9,605
Andbanc Bahamas Limited	Bahamas	(1)	Bank	100%	-	7,180	344
Nobilitas NV	Dutch Antilles	-	Holding company	100%	-	1,391	(675)
Assegur, SA	Andorra	(1)	Insurance	25%	-	776	256
Unió i Aliança de Previsió, SA (UAP, SA)	Andorra	(1)	Insurance	25%	-	850	888
Seguretat i Serveis, SA	Andorra	Gaudit	Services	28,57%	-	761	84
Andorra Assegurances Agricol Reig, SA	Andorra	(1)	Insurance	100%	-	2,552	482
Andbanc Global Management, SA	Luxembourg	(1)	Investment management company	-	100%(*)	125	12
And Private Wealth, SA	Switzerland	(1)	Investment management company	-	100%(*)	1,271	(659)

On April 19, 2005, the Extraordinary Universal Meeting of Shareholders of Quality Asset Management Personal, SA agreed to change the registered name of to And Private Wealth, SA. It was also adopted the resolution to decrease share capital of this company by Swiss francs 1,394 thousand (euros 900 thousand) in order to offset losses from prior years, and also increase share capital by the same amount.

The definition of the Group is in accordance with the Decree of January 19, 2000 of the Government of Andorra.

The consolidation methods used have been as follows:

- Full consolidation of the following companies: Món Gestió, SA, Andbanc Bahamas Limited, Nobilitas NV, And Private Wealth, SA, Andbanc Global Management, SA and Caronte 2002, SA.
- Consolidation by equity accounting of Assegur, SA, Unió i Aliança de Previsió, SA, Andorra Assegurances Agricol Reig, SA and Seguretat i Serveis, SA.

Full consolidation basically consists in including in the balance sheet of the parent company all the assets, rights and obligations that make up the net worth of the subsidiary companies, and in the profit and loss account all the income and expenses concurring in the results of the subsidiaries. All shareholdings greater than 50% which activity is not different to the Bank and which constitute a decision-making unit together with the latter are fully consolidated.

(\*) Indirect shareholding through two holding companies, without any activity other than holding shares in this company.

(1) Companies audited by PricewaterhouseCoopers.

## Accounting practices and policies

# 3

Consolidation by equity accounting consists in replacing the book value by which an investment is stated in the assets accounts with the amount relating to the corresponding percentage held by the parent company in the equity of the investee company. The results of the companies consolidated by equity accounting has been integrated into the consolidated profit and loss account. Consolidated by this method are the subsidiary companies in which the direct and/or indirect shareholding of Andorra Banc Agrícola Reig, SA in their share capital is equal to or greater than 20% but no more than 50%, or greater than 50% provided that their activity is different to the Bank.

All significant balances and transactions between consolidated companies have been eliminated in the consolidation.

The individual financial statements that form part of the consolidation process have been appropriately homogenized for such purpose.

- > The most significant accounting principles and practices applied are as follows:

### a) Accruals basis

Income and expenses are recorded on an accruals basis, independently of the monetary or financial flow from which they arise. All interest accrued and expenses incurred are recorded, except for the interest accrued from doubtful and bad debts, which is recorded when actually collected.

### b) Statement of foreign currency transactions

Accounts in foreign currency and unmatured spot foreign currency transactions for hedging have been translated to Euros at average international market rates of exchange prevailing at the Balance Sheet date.

Gains or losses from the aforementioned translation and the result of operations in foreign currency during the year are debited and credited under Results of financial operations in the Statement of Income.

Forward operations in foreign currency are stated at the exchange rate on the last balance sheet day of the remaining life of the operation. The exchange gains or losses from forward operations are fully stated net the Income Statement.

The other memorandum accounts in foreign currency are translated into Euros on the basis of international market exchange rates, according to the quotation on the last business day on the closing balance sheet.

Unhedged positions in foreign currency of products and charges, are translated into Euros at the prevailing prices in the recording moment.

### c) Allowance for loan losses

This caption is to cover any loan losses that may arise in the recovery of any loan risks. The allowance for loan losses covers specific, general and country risks.

The allowance for loan losses, in accordance with the Andorran financial system accounting plan, is calculated on the basis of the following criteria:

- The specific provision corresponding to all types of assets and memorandum accounts is determined on the basis of individualized studies on the quality of the risks contracted with

- the main debtors and borrowers, based mainly on the guarantees, the time expired as from the default on payment at the maturity date, in application of stringent valuative prudence.
- The general allowance is based on 0.5% of the net loans and fixed income securities with banking institutions and 1% of the net loans to customers and fixed income securities, except for the part covered by contractually pignored cash guarantees and risks guaranteed by the pignoration of listed securities, up to the limit of the market value of such securities and mortgage-backed loans and credits and fixed income securities issued by the central administrations of OECD countries or expressly guaranteed by such bodies.
  - The country risk allowance is determined on the basis of an analysis of the aforementioned risk in application of stringent criteria of prudence in calculating the necessary coverage. Taken into consideration in the overall analysis of the risk are the evolution of the balance of payments, level of debt, services charges on the debt, quotation of the debt on international secondary markets and other indicators and circumstances related to the country in question.

#### d) Investment portfolio

Investments are stated in accordance with the following classification:

- The trading portfolio includes securities acquired for purposes of short-term sale. The securities in this portfolio are stated at their market value as of the year end, or, if there is none, as of the last trading day prior to the latter. The differences arising from the variations in valuation are recorded net (excluding the accrued interest of the fixed interest securities), according to whether they are positive or negative, under Results of financial operations in the Income Statement for the year.

- The securities in the fixed-term investment portfolio, which includes those securities that the Banks have decided to hold to term, are stated at their adjusted cost of acquisition (the cost of acquisition is adjusted monthly on the basis of the amount resulting from the accrual based on a financial calculation of the difference between the acquisition price and the redemption value).

- The results of any sales that may arise are taken to the Income Statement and carried under Extraordinary results, although any gains are accrued on a straight-line basis throughout the remaining life of the security sold.

This portfolio requires no security fluctuation reserve for changes in the market value of the security and its adjusted acquisition price.

- The permanent equity investments portfolio includes investments in equity securities made by Subsidiary and Investee Group companies consolidated by equity accounting, as well as minority interest in companies which activity is complementary to financing activity and which are used to service the activities of the Bank permanent basis. These latter companies are stated at their cost of acquisition. If this value is greater than their book value, a provision is made for the difference and is charged to the Income Statement.

- The ordinary investment portfolio includes those fixed interest securities and equity securities that are not included in the aforementioned portfolios. The fixed income securities are stated at their adjusted price of acquisition (the difference between the acquisition price and the redemption value is apportioned out periodically). Potential net losses arising from the fluctuation in quotations are provided for by a securities fluctuation reserve (equal to the sum of the positive and negative differences, up to the limit of the negative differences) charged to the Income Statement.

The equity securities included in the ordinary investment portfolio are stated in the balance sheet at the lower of their price of acquisition or market value. The market value has been determined in accordance with the following criteria:

- Listed securities: the quotation on the last trading day of the year.
- Unlisted securities: book value of the investment on the basis of the last available balance sheet.

In order to recognize the corresponding losses, a securities fluctuation reserve has been created, which is stated as a negative value in the assets side of the accompanying balance sheet.

#### e) Tangible and intangible fixed assets

Fixed assets are stated at their cost of acquisition, less the accumulated straight-line amortization and depreciation at rates adequate to carrying fixed assets at their residual value at the end of their useful lives.

The amortization and depreciation rates used are:

	ANNUAL PERCENTAGE
Own use buildings	3%
Plant and machinery	10%
Furniture and office equipment	20%
Computer equipment	20-33%
Computer software applications	20%
Vehicles	20%

The cost of multi-property assets of intangible fixed assets is amortized on a straight-line basis over a period equal to the residual life of the respective contract.

In the event that fixed assets are irreversibly depreciated as a result of their use or obsolescence, the loss and decrease in value of the respective asset is expensed directly.

The depreciation of capitalized work and installations in relation to leased assets is related to their estimated useful lives, until the term of the lease agreement terminates.

#### f) Non-operating tangible fixed assets

Non-operating tangible fixed assets are assets not directly related to banking activity and adjudicated assets.

These are basically made up of land, buildings, installations and furniture that are recorded at the lower of their cost of acquisition and depreciated over their estimated useful lives using the same percentages applied to operating fixed assets.

Adjudicated assets include land and buildings stated at the lower of their adjudication value or market price, after deducting the provisions determined by the schedule set down by the current regulation.

### g) Futures operations

The Bank has used these instruments in a limited way both in operations to hedge its equity positions and in others.

The memorandum accounts carry the future operations, as per the regulations of the INAF, related to exchange rate, interest rate, market or credit risk and, specifically:

- The unmatured sales or purchases of currencies and swaps in foreign currency are recorded as spot or maturity transactions depending on whether they mature in less or more than two business day.
- The results of trading transactions, FRAS, interest swaps and other future contracts, undertaken outside organized markets are booked at the principal amount of the operation.

Operations undertaken in order to eliminate or significantly reduce interest rate, market or exchange rate risks in equity positions or other operations are considered hedging operations, in which the gains or losses have been stated side by side in the Income Statement with the costs or yields of the item hedged.

Non-hedging operations, also called trading transactions, which have been undertaken in organized markets, are stated according to their quotations. Gains or losses from the changes in quotations are taken to profit and loss on the basis of daily settlement.

The results of trading transactions undertaken outside organized markets are not recognized in the Income Statement until settled. However, at the end of the month valuations are made of the positions and provisions are made against results for the potential net losses for each type of risk, which, as the case may be, may arise from such valuations. The types of risk considered for these purposes include interest rates, market prices and currency exchange rates.

### h) Allocation to the General Reserve

This reserve covers possible risks inherent in the banking business and other contingencies.

The allocations to the fund are carried under Allocation to the general reserve in the Income Statement while recoveries are carried under Extraordinary results.

### i) Accrual of interest

The Group uses a financial method (i.e., on the basis of the internal rate of return or resulting cost) to calculate the accrual of interest, for both assets and liabilities, with maturities of more than 12 months.

For operations maturing in less than 12 months the Group can choose between this method and straight-line accruals.

### j) Pensions

The Bank has booked different commitments with personnel: commitments with retired employees, with early retirees and internal defined contribution pension funds with current Bank employees.

The personnel of legacy Banc Agrícola i Comercial d'Andorra, SA, who retired before 22 December 1995 enjoy a defined contribution pension scheme set up in 1989. Employees who joined the company after 1 May 1995, except for certain groups belonging to a defined contribution scheme, do not belong to a retirement pension scheme.

Under the agreements signed with retired personnel, the Bank is obligated to make supplementary remuneration. A fund in such amount at 31 December 2005 (Euros 1,088 thousand) has been set up for these obligations. Furthermore, there is an internal fund of Euros 898 thousand at 31 December 2005 for pre-retired personnel which coincides with the obligations accrued at that date.

The actuarial variables and other hypotheses used in the valuation at 31 December 2005 for retired and pre-retired personnel, are as follows:

	RETIRED	PRE-RETIRED
<b>Survival tables</b>	<b>GRMF-95</b>	<b>GRMF-95</b>
Nominal actualization rate	3.5%	3.5%
Nominal rate of salary growth	-	3.4%
Annual growth rate of pensions	3.4%	-
Retirement age	-	65

The amount of the internal pension fund provision for current personnel in 2005 was set up with a 3.4% contribution revaluation and an interest rate of 2.75% as of 2005 for employees who belong to the pension fund on the consolidated Balance Sheet (see note 9).

Current personnel belonging to the defined contribution pension scheme can upon request transfer their pension fund to an off-balance sheet investment fund managed by the Bank (see note 9). As of 31 December 2005, the managed off-balance sheet fund totals Euros 1,545 thousand, while the internal fund carried under "Pension funds for liabilities and charges" totals Euros 2,896 thousand.

## Asset and liability maturities >

The breakdown by maturities of gross loans as of December 31, 2005 and 2004 are as follows:

# 4

	2005							Total
	Maturity	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	No maturity	
<b>Banks financial institutions and other financial institutions</b>	-	56,641	12,506	-	-	-	95,672	164,819
<b>Loans to customers</b>	5,409	120,660	81,906	296,298	215,791	345,902	-	1,065,966
<b>Customer overdrafts</b>	3,729	-	-	-	-	-	58,312	62,041
<b>Customers' bills</b>	-	17,692	7,903	2,330	1,105	-	-	29,030

  

	2004							Total
	Maturity	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	No maturity	
<b>Banks financial institutions and other financial institutions</b>	-	27,709	2,300	54,085	-	-	116,740	200,834
<b>Loans to customers</b>	4,020	96,364	69,841	258,751	182,427	241,676	-	853,079
<b>Customer overdrafts</b>	3,476	-	-	-	-	-	15,893	19,369
<b>Customers' bills</b>	-	10,816	6,445	1,336	1,131	120	-	19,848

Set out below is the breakdown of the sub-entry of Bonds and other fixed interest securities in the accompanying consolidated balance sheet, on the basis of maturities, as from December 31, 2005 and 2004:

2005						
	Maturity	Less than 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total
<b>Bonds and other fixed income securities</b>	-	55,359	66,754	332,074	119,962	574,149

  

2004						
	Maturity	Less than 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total
<b>Bonds and other fixed income securities</b>	-	163,016	44,026	125,656	194,726	527,424

The maturity of deposits with the INAF and the creditor balances in the accompanying balance sheets as of December 31, 2005 and 2004 are as follows:

2005								
	Maturity	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	No maturity	Total
<b>INAF</b>	-	18,946	-	601	-	-	59	19,606
<b>Banks financial institutions and other financial institutions</b>	-	113,973	120,103	107,610	-	-	11,902	353,588
<b>Customers' deposits</b>	-	467,217	126,525	46,568	109,505	4,241	531,878	1,285,934

  

2004								
	Maturity	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	No maturity	Total
<b>INAF</b>	-	48,613	-	601	-	-	736	49,950
<b>Banks financial institutions and other financial institutions</b>	-	20,321	181,208	15,718	-	-	65,673	282,920
<b>Customers' deposits</b>	-	501,845	67,863	88,131	5,122	-	444,727	1,107,688

As of December 31, 2005 and 2004 the detail by currency of gross Loans and gross Securities portfolio is as follows:

2005			
	Euro zone (EMU)	Other currencies	Total
<b>Banks and Financial institutions</b>	97,873	66,946	164,819
<b>Loans and overdrafts</b>	1,040,188	25,778	1,065,966
<b>Customer overdrafts</b>	50,184	11,857	62,041
<b>Customers' bills</b>	27,856	1,174	29,030
<b>Securities portfolio</b>	620,224	18,523	638,747

2004			
	Euro zone (EMU)	Other currencies	Total
Banks and Financial institutions	142,133	58,701	200,834
Loans and overdrafts	801,495	51,584	853,079
Customer overdrafts	16,234	3,135	19,369
Customers' bills	19,158	690	19,848
Securities portfolio	549,808	60,154	609,962

In respect of INAF deposits and creditor balances in the accompanying consolidated balance sheet, the breakdown by currency as of December 31, 2005 and 2004 is as follows:

2005			
	Euro zone (EMU)	Other currencies	Total
INAF	19,606	-	19,606
Banks Financial institutions and other Financial Institutions	346,591	6,997	353,588
Customer deposits	1,020,801	265,133	1,285,934

2005			
	Euro zone (EMU)	Other currencies	Total
INAF	49,950	-	49,950
Banks Financial institutions and other Financial Institutions	257,586	25,334	282,920
Customer deposits	872,058	235,630	1,107,688

## Banks and financial institutions

# 5

> This balance as of December 31, 2005 and 2004 is broken down as follows:

	2005	2004
<b>Current accounts</b>		
Banks and financial institutions	96,856	117,569
Other financial institutions	147	26
	97,003	117,595
<b>Time deposits</b>		
Banks and financial institutions	67,816	83,239
Other financial institutions	-	-
	67,816	83,239
<b>Less, Allowance for loan losses</b>	(81)	(336)
	<b>164,738</b>	<b>200,498</b>

The movement in the allowance for loan losses during 2005 has been as follows:

	Specific risks	General risks	Total
<b>Balance as of December 31, 2004</b>	-	336	336
Recoveries net of allocations	-	(255)	(255)
Transfers to bad debts	-	-	-
Others	-	-	-
<b>Balance as of December 31, 2005</b>	-	81	81

As of December 31, 2005 Banks and Financial institutions does not carry any matured, doubtful loans.

## Credit portfolio

# 6

- > The detail of this caption of the accompanying consolidated balance sheet as of December 31, 2005 and 2004 in terms of the status of the loan and type of guarantee is as follows:

Credit situation	2005			Total
	Normal	Matured	Doubtful	
Loans and advances to customers	1,061,907	1,694	2,365	1,065,966
Customers' overdrafts	58,312	137	3,592	62,041
Customers' bills	29,030	-	-	29,030

Credit situation	2004			Total
	Normal	Matured	Doubtful	
Loans and advances to customers	850,444	842	1,793	853,079
Customers' overdrafts	15,892	111	3,366	19,369
Customers' bills	19,848	-	-	19,848

Customers' overdrafts includes loans, in respect of which litigation has been filed, in the amount of Euros 2,092 thousand, Euros 1,398 thousand in 2004.

Type of guarantee	2005				Total
	Mortgage backed	Cash	Securities	Without guarantees and other guarantees	
Loans and advances to customers	509,132	30,706	279,833	246,295	1,065,966
Customers' overdrafts	399	1,178	51,674	8,790	62,041
Customers' bills	-	756	34	28,240	29,030

Type of guarantee	2005				Total
	Mortgage backed	Cash	Securities	Without guarantees and other guarantees	
Loans and advances to customers	351,862	16,730	265,089	219,398	853,079
Customers' overdrafts	409	1,188	11,074	6,698	19,369
Customers' bills	-	975	58	18,815	19,848



2004						
	Registered Office	% Investment	Share Capital	Profit for the year	Total stockholders' Equity	Book value of investment
Clau d'Or, SA	Andorra	100%	30	-	30	30
Mon Immobiliari, SA	Andorra	25%	30	242	191	8
<b>Shareholding in Group companies consolidated by equity accounting</b>						<b>2,430</b>
<b>Others</b>						<b>99</b>
						<b>2,567</b>

Due to lack of relevance, Clau d'Or, SA and Món Immobiliari, SA are not consolidated.

The breakdown of the shareholding in Group companies consolidated by equity accounting as of 31 December 2005 is as follows:

	Book value of investment	Dividends collected in 2005
Andorra Assegurances Agricol Reig, SA	2,552	-
Assegur, SA	194	201
UAP, SA	213	699
	<b>2,959</b>	<b>900</b>

### c) Other equity investments

Other equity investments includes investments in companies where the Group does not have a majority of shares or decision-making power.

These investments as of December 31, 2005 are as follows:

2004							
Corporate name and activity	Registered Office	Direct investment	Subscribed share Capital	Total stockholders' Equity	Profit for the year	Interim dividend for the year	Book value of investment
Túnel d'Envalira, SA	Andorra	10%	8,400	13,079	2,736	-	840
Semtee, SA	Andorra	15%	25,242	30,355	3,890	-	3,916
Seguretat i Serveis, SA	Andorra	28.6%	32	761	84	(84)	218
							<b>4,974</b>

### d) Shares and other equity assets

Shares and other variable-income equity securities include all listed or unlisted shares and securities in the Bank's available-for-sale securities portfolio, which represent shareholdings in the capital of other companies with which there is no long-lasting relationship and where such shareholdings are not allocated in order to contribute to the activity of the Bank.

### e) Investment management entities

This balance is broken down by management entity as of December 31, 2005 and 2004:

	2005	2004
<b>Managed by:</b>		
Entities related to the Group	55,086	70,500
Entities not related to the Group	107	2,405
	<b>55,193</b>	<b>72,905</b>

### f) Portfolio valuation

Set out below is the detail of securities as of December 31, 2005 and 2004 classified by the valuation categories described in Note 3 (d):

	2005	2004
Trading portfolio	55,901	98,672
Investment portfolio held to term	260,505	192,540
Permanent investments	8,072	7,541
<b>Ordinary investment portfolio:</b>		
Fixed income securities	310,377	305,608
Equity securities income	3,892	5,601
	<b>638,747</b>	<b>609,962</b>

The cost of acquisition of securities in the trading portfolio as of December 31, 2005 totals Euros 54,181 thousand (Euros 97,856 thousand as of December 31, 2004). The market value of the ordinary investment portfolio and investment portfolio held to term is Euros 313,257 thousand and Euros 260,470 thousand as of December 31, 2005 (Euros 310,990 thousand and Euros 199,014 thousand as of December 31, 2004). The total unrecorded gains for all categories at such date are Euros 1,126 thousand (Euros 7,306 thousand as of December 31, 2004).

### g) Securities fluctuation reserve

Set out below is the movement in the securities fluctuation reserve during 2005.

<b>Balance as of December 31, 2004</b>	<b>429</b>
Allocations	1,264
Recoveries	(417)
Write-off	-
<b>Balance as of December 31, 2005</b>	<b>1,276</b>

### h) Allowance for loan losses

The allowance for loan losses relates exclusively to the general provision in the Investment portfolio.

## Fixed assets

# 8

> The movement in Intangible fixed assets and capitalized expenses during 2005 and their corresponding amortization is as follows:

Cost	31.12.04	Additions	Disposals	Transfers	31.12.05
Software applications	15,864	441	-	1,209	17,514
Multi-property assets	536	-	-	-	536
Others	4,582	1,102	(126)	(1,202)	4,356
<b>Total Cost</b>	<b>20,982</b>	<b>1,543</b>	<b>(126)</b>	<b>7</b>	<b>22,406</b>
<b>Depreciation</b>					
Software applications	(11,017)	(1,929)	14	-	(12,932)
Multi-property assets	(44)	(11)	-	-	(55)
Others	(1,028)	(365)	112	-	(1,281)
<b>Total Accumulated Depreciation</b>	<b>(12,089)</b>	<b>(2,305)</b>	<b>126</b>	<b>-</b>	<b>(14,268)</b>
<b>Total NET</b>	<b>8,893</b>	<b>(762)</b>	<b>-</b>	<b>7</b>	<b>8,138</b>

The Entity has reached an agreement with Pyrénées, S.A. effective as from 1 January 2003, by virtue of which both parties contribute certain financing operations and services arising from their activity to a joint account, the results of which are equal. On the basis of the price at which the contributions have been valued there is a difference of Euros 3,063 thousand which that Bank has paid and recorded under Others as capitalized expenses.

The period for the depreciation of the capitalized expenses, according to the Financial System Accounting Plan, is five years. In view of the fact that the agreement is indefinite and in order to bring the projected generation of income into line with depreciation, the Bank has asked the INAF for depreciation, which was granted on 19 January 2004, to take the difference mentioned above to profit and loss over a period of ten years.

The movement in Tangible fixed assets during 2005 and corresponding depreciation are as follows:

Cost	31.12.04	Additions	Disposals	Transfers	31.12.05
<b>OPERATING:</b>					
Land	3,723	-	-	-	3,723
Buildings	20,695	-	-	(1,142)	19,553
Furniture	4,273	124	(1)	76	4,472
Works of art	-	-	-	-	-
Installations	25,003	78	(135)	2,064	27,010
Computer processing equipment	13,503	1,055	-	108	14,666
Vehicles	962	266	(117)	-	1,111
Fixed assets under construction	2,114	3,808	(4)	(1,113)	4,805
<b>Subtotal</b>	<b>70,273</b>	<b>5,331</b>	<b>(257)</b>	<b>(7)</b>	<b>75,340</b>
<b>NON-OPERATING</b>					
Buildings	9,006	-	-	-	9,006
Land	10,633	-	(434)	-	10,199
Installations	4,243	9	-	-	4,252
Computer processing equipment	92	-	-	-	92
Furniture	33	-	-	-	33
Vehicles	3	13	-	-	16
<b>Subtotal</b>	<b>24,010</b>	<b>22</b>	<b>(434)</b>	<b>-</b>	<b>23,598</b>
<b>Total TANGIBLE FIXED ASSETS</b>	<b>94,283</b>	<b>5,353</b>	<b>(691)</b>	<b>(7)</b>	<b>98,938</b>
<b>DEPRECIATION</b>					
<b>OPERATING</b>					
Buildings	(5,897)	(664)	-	41	(6,520)
Furniture	(3,566)	(288)	-	-	(3,854)
Installations	(20,035)	(1,245)	133	(41)	(21,188)
Computer processing equipment	(9,582)	(2,139)	64	-	(11,657)
Vehicles	(162)	(56)	85	-	(133)
<b>Subtotal</b>	<b>(39,242)</b>	<b>(4,392)</b>	<b>282</b>	<b>-</b>	<b>(43,352)</b>

Cost	31.12.04	Additions	Disposals	Transfers	31.12.05
<b>NON-OPERATING</b>					
Buildings	(2,701)	(284)	-	-	(2,985)
Installations	(3,534)	(427)	-	-	(3,961)
Computer processing equipment	(92)	-	-	-	(92)
Furniture	(29)	(3)	-	-	(32)
<b>Subtotal</b>	<b>(6,356)</b>	<b>(714)</b>	<b>-</b>	<b>-</b>	<b>(7,070)</b>
<b>Total DEPRECIATION</b>	<b>(45,598)</b>	<b>(5,106)</b>	<b>282</b>	<b>-</b>	<b>(50,422)</b>
<b>Allowance for depreciation of fixed assets:</b>					
Buildings debtors	(117)	-	-	-	(117)
<b>Total NET TANGIBLE FIXED ASSETS</b>	<b>48,568</b>	<b>247</b>	<b>(409)</b>	<b>(7)</b>	<b>48,399</b>

## Provisions for liabilities and charges

> The movement in the fund for pensions and similar obligations in 2005 and 2004 has been as follows:

# 9

	Retirements	Early retirements	Pension Fund	Total
Balance as of December 31, 2003	1,238	1,356	2,117	4,711
Transfer to the Bank's internal pension fund	-	-	16	16
Allocation for the year imputed to the Income Statement	47	51	535	633
Payments made to pensioners and redemptions for the year	(93)	(338)	(83)	(514)
Management of off-balance sheet fund	-	-	(145)	(145)
Other movements	(100)	(9)	109	-
<b>Balance as of December 31, 2004</b>	<b>1,092</b>	<b>1,060</b>	<b>2,549</b>	<b>4,701</b>
Transfer to the Bank's internal pension fund	-	-	35	35
Allocation for the year imputed to the Income Statement	42	35	717	794
Payments made to pensioners and redemptions for the year	(80)	(212)	(216)	(508)
Management of off-balance sheet fund	-	-	(140)	(140)
Other movements	34	15	(49)	-
<b>Balance as of December 31, 2005</b>	<b>1,088</b>	<b>898</b>	<b>2,896</b>	<b>4,882</b>

The allocation to the Pension Fund for the year is recorded under Other staff costs in the Statement of Income. This allocation for 2005 includes Euros 146 thousand (Euros 155 thousand in 2004) as finance charges.

The payments to pensioners and early retirees in 2005 has been directly registered for the year, against the pension fund.

The investment from the investment portfolio allocated to the retirement and early retirement fund as of 31 December 2005 relates to part of a fixed income security maturing on September 28, 2010 that forms part of the investment portfolio held to maturity.

## Distribución de resultados

# 10

The balance of the fund allocated to pensions for current personnel is covered by deposits lent to banks and financial institutions.

- > The proposed allocation of the net income of Andorra Banc Agrícola Reig, SA for the year 2005 to be presented for the approval of the General Meetings of Shareholders is as follows:

Dividends	67,445
Voluntary reserves	6,705
	<b>74,150</b>

During 2005 the Bank has paid out interim dividends in the amount of Euros 30,131 thousand. The allocation of the net income of Andorra Banc Agrícola Reig, SA, for 2004 was as follows:

Dividends	60,263
Voluntary reserves	7,639
	<b>67,902</b>

## Movement in stockholders' equity and the general reserve

# 11

- > The movement in consolidated reserves of the Group during 2005 has been as follows:

	Share capital	Legal reserve	Reserve under guarantee	Statutory reserve	Voluntary reserves	Consolidated reserves	Dividends	Results for the year attributed to the Group
Balance as of December	68,061	6,806	17,856	22,744	209,873	2,517	-	66,745
Distribution of net income	-	-	-	-	7,639	-	60,263	(67,902)
Adjustments of consolidated companies	-	-	-	-	-	(1,157)	-	1,157
Results for the year	-	-	-	-	-	-	-	74,795
Balance as of December 31, 2005	68,061	6,806	17,856	22,744	217,512	1,360	60,263	74,795

### a) Share capital

The Bank's share capital is made up of 1,751,825 shares with a par value of Euros 38.85 each.

### b) Legal and statutory reserves

In accordance with current Andorran company law, Banks must allocate 10% of profit for the year to the legal reserve until it reaches a total of 10% of share capital. As of December 2005 and 2004, this reserve is fully allocated.

According to the articles of association of the Bank, no allocations to the Statutory Reserve are needed.

### c) Reserves in guarantee of deposits

This section includes the reserves in guarantee of deposit and other operating obligations deposited with the INAF by entities in the financial system.

#### d) Consolidated reserves

The consolidated reserve corresponds to the following companies:

	2005
Andorra Banc Agrícol Reig, SA	3,717
Mongestió, SA	114
Andorra Assegurances Agrícol Reig, SA	(454)
Assegur, SA	51
Group Nobilitas, NV	(2,372)
Andbanc Bahamas Ltd	(188)
<b>Others</b>	<b>492</b>
<b>Total</b>	<b>1,360</b>

The movement in consolidation reserves during the year 2005 has been as follows:

	Fully consolidated reserves	Reserves in companies consolidated by equity accounting	Total
<b>Balance at 31 December 2004</b>	<b>2,414</b>	<b>103</b>	<b>2,517</b>
Allocation of 2004 results to reserves	8,667	242	8,909
Interim dividend 2004 (collected in 2004)	(9,310)	(224)	(9,534)
Supplementary dividend 2003 (collected in 2004)	(1,480)	(98)	(1,578)
Homogenizations	26	-	26
Elimination of equities fluctuation reserve 2004	913	29	942
Other movements	78	-	78
<b>Balance at 31 December 2005</b>	<b>1,308</b>	<b>52</b>	<b>1,360</b>

#### e) Results attributed to the Group

The breakdown of Results attributed to the Group as of December 31, 2005 is as follows:

<b>Andorra Banc Agrícol Reig, SA</b>	<b>64,419</b>
<b>Fully consolidated companies:</b>	<b>9,584</b>
Mongestió, SA	9,605
Caronte 2002, SA	1
Andbanc Bahamas Limited	344
Group Nobilitas NV	(675)
Others	309
<b>Companies consolidated by equity accounting:</b>	<b>792</b>
Assegur, SA	64
U.A.P., SA	222
Andorra Assegurances Agrícol Reig, SA	482
Seguretat i Serveis, SA	24
	<b>74,795</b>

### f) Interim dividend

The accounting statements of the Bank at 6 September 2005, the date on which the interim dividend was distributed, state a profit that brings to light the existence of sufficient liquidity for distribution of said dividend.

### g) General reserve

There has been no movement in the general reserve for 2005.

## Assets and liabilities in EMU and other currencies

# 12

- > The breakdown of the assets and net worth in the balance sheets as of December 31, 2005 and 2004 of EMU and other currencies is as follows:

	2005		2004	
	Assets	Liabilities	Assets	Liabilities
In EMU currencies	1,952,553	1,806,994	1,648,322	1,574,285
In other currencies	127,510	273,069	187,271	261,308
	<b>2,080,063</b>	<b>2,080,063</b>	<b>1,835,593</b>	<b>1,835,593</b>

## Financial derivatives

# 13

- > Transactions in futures and financial derivatives are detailed below at their notional value by type of product as of December 31, 2005 and 2004. Distinction is made between trading operations and hedging operations by market:

	Type of operation	Market	2005	2004
<b>Forward currency purchases</b>	Hedging	Over the counter	1,561,453	1,149,753
<b>Financial swaps</b>	Hedging	Over the counter	682,092	195,631
<b>Financial swaps</b>	Trading	Over the counter	9,970	10,212
<b>Other contracts</b>	Hedging	Over the counter	18,429	201,826
<b>Other contracts</b>	Trading	Over the counter	73,000	89,476
			<b>2,344,944</b>	<b>1,646,898</b>

The forward currency operations are considered hedges, in view of the fact that the overall position in terms of currency and maturities is practically closed. There are certain operations involving insignificant amounts that hedge to maturity the risks recorded on the balance sheet. The overall net spot position and net forward position in currency operations is monitored on a daily basis.

The swaps are contracted in order to cover the interest rate risk of the fixed-income time deposits of creditors and others operations with customers. The Group regularly monitors the difference between the nominal amount contracted and the amount of the deposits to be hedged.

The maturities of operations in futures and financial derivatives are as follows:

	2005			Total
	Up to 1 year	From 1 year to 5 years	More than 5 years	
<b>Forward currency purchases</b>	1,561,252	201	-	1,561,453
<b>Financial swaps</b>	360,000	317,239	14,823	692,062
<b>Other contracts</b>	-	68,000	23,429	91,429
	<b>1,921,252</b>	<b>385,440</b>	<b>38,252</b>	<b>2,344,944</b>

	2004			Total
	Up to 1 year	From 1 year to 5 years	More than 5 years	
<b>Forward currency purchases</b>	1,149,753	-	-	1,149,753
<b>Financial swaps</b>	36,000	168,843	3,000	205,843
<b>Other contracts</b>	245,000	25,000	21,302	291,302
	<b>1,430,753</b>	<b>191,843</b>	<b>24,302</b>	<b>1,646,898</b>

## Operations with associated entities and persons

# 14

- > The breakdown of balances and transactions with Group subsidiaries and with Shareholders and Entities related to the Shareholders representing more than 10% of the shareholders' equity stated on the Balance Sheet is as follows:

	Group	Other shareholders and Entities
<b>Banks and financial institutions</b>		
Assets	-	-
Liabilities	-	-
<b>Other financial institutions</b>		
Assets	-	-
Liabilities	-	-
<b>Accruals</b>		
Assets	-	-
Liabilities	-	-
<b>Other assets</b>	-	-
<b>Loans</b>	-	59,219
<b>Memorandum accounts</b>	-	122,764
<b>Customers' deposits</b>	-	34,018

During 2005 there were no transactions with Shareholders or Entities related to the Shareholders over 5% of Results for the year shown on the Income Statement.

## Market risks

# 15

- > Market risks includes all the risks arising from divergences in the evolution of interest rates or exchange rates in relation to the assets and liabilities on the balance sheet, as well as fluctuations in liquidity levels and the quotation of the Group's own financial assets and liabilities in fixed income or equity securities.

The Group has set up the Assets and Liabilities Committee (hereinafter C.O.A.P.) to set policies and monitor overall risks. The C.O.A.P. evaluates the sensitivity of the balance sheet to fluctuations in interest and exchange rates and defines short and medium-term strategies for managing the sources and applications of funds. The Committee also analyses the levels of liquidity and has contingency plans in the event of deviations from its policy arising from internal or market-related causes.

The tools of the C.O.A.P. include, amongst others, the simulation of balances and net interest income for different scenarios with varying stockholder's equity levels at different maturities, the analysis of the term of sensitive assets and liabilities and the evaluation of the liquidity gap. It also evaluates and sets limits for the market risk to which the Entities are subject.

The Committee delegates the monitoring and control to the Middle Office department, which monitors on a periodical basis all market risks incurred in exchange rates, interest rates quotations of securities and credit risk.

The maximum exposure limits during the year, as per the risk generating factor, have been as follows for 2005 (in Thousand Euros):

	Limits of shareholders' equity
FIXED INCOME - Trading position	15,000
EXCHANGE - Overall forward/Spot position	6,000
INTEREST- Loss in net worth due to a 1% increase in interest rates (*)	4%
EQUITY SECURITIES- Trading position	6,000

## Deposits of securities and other securities under custody

# 16

(\*) Limits on shareholders' equity

> These deposits of securities include as of December 31, 2005 an amount of Euros 344,714 thousand as guarantee of different debt and risk guarantee operations.

As of December 31, 2005 the volume of individual customer equity management is carried under securities under deposit of custody of third parties in the memorandum accounts and creditor balances in the liability side of the Balance Sheet. The income recorded for management commissions is carried under Commissions for services.

This balance includes Euros 254,200 thousand in bank deposits made by the Bank on behalf of customers as of December 31, 2005 (Euros 350,000 thousand as of December 31, 2004).

## Other memorandum accounts

# 17

(\*) Limits on shareholders' equity

> As of December 31, 2005 and 2004 the breakdown of this account has been as follows:

	2005	2004
Very bad debts	18,174	18,250
Others	9,926	6,251
	<b>28,100</b>	<b>24,501</b>

## Compliance with legal regulations

# 18

### > Regulatory legislation on obligatory investment ratios.

The Council General of the Principality of Andorra passed a law on June 30, 1994, on the regulation of obligatory investment fund ratios. The Regulations, pursuant to this law, exclusively concern banking institutions, and oblige them to maintain a certain investment ratio of assets in Andorran public funds.

On August 22, 1994 the Government issued a Decree on Public Debt, pursuant to the Law of Obligatory Investment Ratios, and the Decree regulating the aforementioned law, by virtue of which the Group subscribed Euros 19,909 thousand in public debt of the Principality of Andorra, renewed on various occasions. This Public Debt has been replaced by new issues of Euros 32,818 thousand maturing on December 31, 2005 with the interest rate of the Central European Bank at one year (2.34%). And, thereafter, on 17 January 2005, by another issue, with the same maturity date and remunerated at 2.3%, of which the Bank subscribed Euros 13,482 thousand (see Note 7). In view of the fact that both issues matured on 31 December 2005, and by virtue of a Decree of the same date, the Government has adopted a new public debt issue, of which the Bank has to subscribe Euros 55,766 thousand maturing on 31 December 2009, accruing interest of the official one-year rate of the European Central Bank.

The Public Funds Homologation Decree, in respect of compliance with the obligatory investment ratio for certain deposits with the INAF, of August 22, 1994, considers public funds to be all deposits that banking entities make for such purpose with the aforementioned INAF. The deposit made by the Banks in this respect totals Euros 259 thousand as of December 31, 2005 (Euros 13,938 thousand as of December 31, 2004) and is recorded under INAF in the assets side of the accompanying consolidated balance sheet. These deposits have accrued an annual market interest rate in 2005.

Furthermore, the loans granted by the Banks under a program classified as being in the national and social interest, which is aimed at the privileged financing of housing, are now also considered to be public funds, as per the decision of the Council General of the Government of Andorra of April 26, 1995. The loans granted by the Banks in this respect amount to Euros 977 thousand as of December 31, 2005 (Euros 1,245 thousand as of December 31, 2004) and are carried under Loans / Loans and advances to customers in the accompanying consolidated balance sheet. These loans accrued a fixed annual interest rate of 6%.

The Council General of the Principality of Andorra at its meeting of May 11, 1995, approved the Law Regulating Deposit Guarantee Reserves and Other Operational Obligations which are to be maintained and deposited by entities operating in the financial system. This Law obliges entities forming part of the Andorran financial system to maintain amongst their stockholders' equity various minimum reserves of shareholders' equity as a guarantee for operational obligations of up to 4%, which for 2005, amounts to 1.25% of total investments, after deducting the investments made using shareholders' equity and funds of financial institutions. The deposit made by the Banks in this respect as of December 31, 2005 and 2004 totals Euros 17,856 thousand and is carried under Andorra National Institute of Finance (INAF) in the assets side of the accompanying consolidated balance sheet.

### Legal solvency and liquidity regulations for financial institutions

On February 29, 1996, the Council General of the Principality of Andorra passed a law regulating solvency and liquidity criteria in financial institutions.

This Law obliges banking entities to maintain a 10% minimum capital ratio based in part on the recommendations of the Basel Committee on Banking Regulations and Supervisory Practices, calculated on the basis of a ratio that relates the qualifying equity to the weighted risk assets as

per the degree of risk of such assets. Thus, banks are also obliged to maintain a liquidity ratio of at least 40%.

The capital and liquidity ratios of the consolidated financial statements, determined in accordance with this Law, as of December 31, 2005 are 33.84% and 52.78% (36.59% and 56.24% as of December 31, 2004).

The law regulating solvency and liquidity criteria in financial institutions also restricts the concentration of risk in a single beneficiary up to a maximum of 20% of the shareholders' equity of the banking entity. On the other hand, the aforementioned law stipulates that the accumulation of risks that individually exceed 5% of the shareholders' equity cannot exceed the limit of 400% of the aforementioned shareholders' equity. Therefore, the risk maintained with members of the Board of Directors cannot exceed 15% of the shareholders' equity. The aforementioned risks are weighted in accordance with the aforementioned law.

During the year the Group has complied with the requirements of this Law, and the concentration of risk in favor of a single beneficiary totals a maximum of 17.47% of shareholders' equity in 2005 (17.01% in 2004). The loans or other operations involving risk in favor of a single beneficiary exceeding 5% of shareholders' equity have not exceeded an accumulation of risks of 56.69% in the aggregate (43.40% in 2004).

### **The Indirect Tax on Banking and Financial Services Act**

The General Council of the Principality of Andorra on May 14, 2002 adopted the Indirect Tax on Banking and Financial Services Act. This purpose of this act is to tax the services provided by financial entities to their customers.

The calculation of the tax payable is made objectively, in accordance with the provisions of the Indirect Tax on Banking and Financial Services Act and on the basis of the returns filed in respect of such taxes.

The amount recorded as of December 31, 2005 for the indirect tax on Banking and Financial services has totaled Euros 10,108 thousand (Euros 6,447 thousand in 2004). This amount has been recorded in the Tax account held under General expenses in the Statement of Income.